Financial Markets

Irving Trust

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Market sentiment seemed to improve a bit this week. After the past few weeks, during which international concerns tended to weigh heavily on bond prices, the markets began to redirect their attention to domestic economic considerations that increasingly suggest interest rates will be moving down over the course of the year. The foreign exchange markets calmed down. And news on inflation, money, and credit brought no unpleasant surprises. But the modest rise in December's unemployment rate to 5.9% was somewhat unexpected. That, and the prospects for a pickup in new bond supplies in the corporate and government markets, was enough to erase earlier gains and leave bond prices off a little for the week.

Just how serious the U.S. inflation problem is can be seen from the markets' reaction to December's producer price statistics. A 9.6% annual rate of increase was viewed favorably, being the smallest increase and the first single-digit increase since June. The increase placed the producer price gain for the year at 12.5%.

Also contributing to the markets' firm tone was the weekly money supply release. There was a nominal M_1 gain and no change in M_2, continuing into the first week of 1980 the apparent slowdown in the momentum of monetary expansion. The Federal Reserve also reported that revised money statistics indicated a 5.5% increase in M_1, and an 8.3% gain in M_2 over the year 1979; both estimates were slightly higher than the preliminary data had suggested. M_1 growth was somewhat below the 6% upper annual target limit set by the Federal Open Market Committee, while the pace of M_2 expansion was only marginally above its 8% ceiling.

Evidence of slower consumer credit expansion also persisted. Consumer credit grew $2.4 billion in November, virtually identical with October's pace. The share of take-home pay that consumers are using for debt repayments rose steadily last year; delinquencies, too, began heading up last quarter. And Commerce Department estimates suggest that continued expansion of real GNP growth in the fourth quarter--of 2% to 3%--was fueled by a slowdown in savings to a very low rate; the savings rate in October reached a historic low of 3.3%. All in all, it would appear that mounting liquidity strains in the household sector will keep consumer credit demand under control in 1980.

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Money Market Rates

	1/11/80 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	15.25%	15.25%	11.75%
Effective since	12/7/79		
Discount Rate at Federal Reserve Bank	12.00	12.00	9.50
Federal Funds	14.07	13.75	10.00
Repurchase Agreements	12.50	12.63	9.70
U.S. Treasury Issues - Yields			
Bills			
3 months	12.15	12.65	9.70
6 months	12.55	12.60	10.00
1 year	11.80	11.75	10.45
Coupons			
2 years	11.27	11.42	9.85
4 years	10.62	10.63	9.37
7 years	10.59	10.59	9.17
10 years	10.61	10.59	9.10
Long Bond	10.31	10.26	8.92
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.30	13.40	10.30
3 months	13.35	13.60	10.65
6 months	13.37	13.70	11.30
1 year	12.55	12.50	11.15
Bankers' Acceptances			
1 month	13.15	13.45	10.29
3 months	13.35	13.70	10.68
6 months	13.40	13.85	11.42
Eurodollar Deposits			
1 month	14.00	14.38	10.80
2 months	14.13	14.56	11.10
3 months	14.19	14.63	11.30
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	12.25	12.00	6.00
1 month	12.75	13.25	10.13
3 months	12.00	12.00	10.00
Bank Holding Companies			
1 month	13.00	13.38	10.13
Dealer Placed:			
3 months	13.00	13.30	10.45
New Aa Corporate Utility Bond	11.88	11.85	9.50
Tax Exempt			
6 month Project Notes	5.75	5.60	5.40
12 month Project Notes	N/A	N/A	5.50
20 year AAA Bond	6.70	6.90	5.95

This information represents prevailing market yields. It should not be construed as an offering. All yields are on the offered side of the market.

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